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SIPDIS

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SENSITIVE
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SUBJECT: VIETNAM'S RAPID INTERNET AND IT GROWTH (C-AL8-00160)

REFS: A) STATE 12361; B) 07 HANOI 1749; C) 07 HANOI 2085 D) HO CHI
MINH CITY 235

HANOI 00000288 001.2 OF 003

¶1. (SBU) Summary: The Internet is a growing source of news,
entertainment, communication and political expression in Vietnam.
Internet usage has grown at a rate of 36 percent per year over the
past ten years, resulting in nearly 19 million Internet users in
Vietnam today – roughly 22 percent of Vietnam's population. The
government has prioritized development of the Internet and
information and communication technology (ICT) sectors, issuing a
series of strategic targets in these fields aimed at achieving its
economic and social development goals. The growth and
liberalization of Vietnam's ICT sector has changed the market
dynamics – causing former monopoly Vietnam Posts and
Telecommunications Group (VNPT) to reform and creating new
opportunities for foreign firms. Although the Internet and ICT
sectors in Vietnam have a bright future, they will fail to meet
their full growth potential until Vietnam addresses its lack of IT
education and human resource skills, and until the GVN loosens its
restrictions on Internet use and content. End summary.

PLUGGING IN

¶2. (SBU) Vietnamese are turning increasingly to the Internet as a
source of news, entertainment, communication and political
expression (Ref. D). Since connecting to the global computer
network in 1997, the number of Internet users in Vietnam has shot up
an average of 36 percent per year. According to the Ministry of
Information and Communications' (MIC) Vietnam Internet Network
Information Center (VNNIC), by the end of January 2008 more than 5.3
million Vietnamese actively subscribed through one of 18 licensed
Internet service providers (ISPs) – most of which are state-owned.
Of the 5.3 million subscribers, 1.3 million connect via broadband.
Those Vietnamese who are unable to afford their own computer or
Internet subscription turn to the seemingly ubiquitous Internet
cafes in large towns and cities to satisfy their digital thirsts.
In total, MIC calculates that there are 18.9 million Internet users
here, which equates to 22 percent of Vietnam's population.

GVN WORKING TO KEEP UP WITH DEMAND...

¶3. (U) The GVN is working to stay in step with technological
developments to ensure adequate infrastructure and services are
available to meet the population's growing demands for connectivity.
 VNNIC statistics show that Vietnam's international connection
bandwidth nearly doubled between January 2007 and January 2008.
Domestic connection bandwidth has likewise grown significantly over
that time period. MIC, the government's lead agency for the
information technology and telecom sectors, continues to develop

policies and regulations to support further growth in these areas.
The GVN has also keyed in on the ICT sector as a growth industry
(Ref. B), seeking both to develop the domestic industry and to
attract technology and know-how from overseas.

¶4. (U) In October 2005, then Prime Minister Phan Van Kai approved a
national strategy on "Vietnam's Information and Communication
Development until 2010 and Orientations Toward 2020." The GVN later
followed this with a second regulation providing more concrete and
specific targets for the Internet and telecom sectors. Some key
targets for 2010 included in these strategies are:

-- To provide modern telecom and Internet services at prices equal
to or below regional (ASEAN) levels.

-- To reach teledensity rates of 32-42 telephones per 100 people.
(Note: MIC reports a teledensity rate of 55.2 per 100 people as of
December 2007. End note.)

-- To reach Internet subscription rates of 8-12 per 100 people, of
which 30 percent are broadband subscriptions; Internet users should
account for 25-35 percent of the population. (Note: VNNIC's 2007
statistics equate to roughly 6.1 subscribers per 100 people, of
which 25 percent are broadband subscribers, while Internet users
accounted for 22 percent of the population. End note.)

-- To provide 100% of communes with public telephone access and 70%
of communes with public Internet access points.

-- To ensure that all ministries, branches, state administrative
agencies and provincial and district-level administrations shall be
connected via broadband Internet and the GVN's wide-area network.

-- To provide broadband access to 100 percent of research
institutes, universities, colleges, vocational schools and upper
secondary schools; provide Internet access to more than 90 percent
of secondary schools and hospitals.

-- For the information and communication technology (ICT) industry
to reach 20 percent annual growth rates with total revenues reaching
USD 15 billion. The telecom and Internet sectors are targeted to
reach USD 3.5 billion in revenues.

...AND MEET ITS DEVELOPMENT TARGETS

¶5. (U) The GVN considers development of the ICT sector as
strategically important to reach its economic and social development
goals, including meeting the criteria of a middle-income country by
2010 and of an industrialized country by 2020. Article 1.1 of
Vietnam's ICT Development Strategy states that information and
communication technologies are, "the first and foremost important
instrument for achieving the Millennium Goals, forming an
information society and shortening the national industrialization
and modernization processes."

¶6. (U) Vietnam has undertaken a series of actions to meet its ICT
development goals. As reported in reftel C, Hanoi recently awarded
a USD 20 million contract to state-owned Vietnam Posts and
Telecommunications Group (VNPT) to build a high speed data
transmission network to connect GVN and Communist Party offices
nationwide . On February 25, VNPT announced plans for a significant
investment of USD one billion in 2008 to develop its broadband
network, hoping to attract 1.5 million new broadband subscribers by
the end of the year. Separately, USAID has partnered with U.S.
firms such as Intel and Vietnamese telecom firms to implement trials
of advanced wireless broadband technology, bringing telecom and
broadband services to underserved, remote areas of Vietnam. In late
2007, Prime Minister Nguyen Tan Dung also approved plans for the GVN
to issue trial WiMAX licenses to begin the expansion of wireless
infrastructure throughout Vietnam; seen as a way to overcome
geographic challenges to connect Vietnam's rural communities.
Weather permitting, Vietnam is expected to launch its first
satellite, known as VINASAT-1 (built by Lockheed-Martin), on April

10, 2008, which will also expand high-speed Internet capabilities
here.

VNPT - REFORMING A DOMESTIC GIANT

¶8. (SBU) Competition in Vietnam is growing among ISPs, value-added
service providers and other IT companies, although former monopoly
VNPT and its subsidiaries continue to occupy the dominant market
position in most telecom and Internet categories. During a recent
meeting, VNPT Chairman Pham Long Tran described his organization's
reform efforts to become more competitive domestically. Tran
explained that VNPT has over 90,000 employees and more than 100
subsidiaries in diverse markets such as Internet services, post and
telecom services, newspapers, tourism, construction, and health
care. He said that VNPT has submitted proposals to MIC to
streamline and reform its operations to better compete with growing
domestic and foreign competition. One of the key proposals is to
separate VNPT's telecom and Internet operations from its other lines
of business.

¶9. (U) Additionally, VNPT is seeking to "equitize" (the Vietnamese
term for transforming 100 percent State-owned enterprises into joint
stock or limited liability companies through the sale of shares)
some of its subsidiaries. Tran said that the entire VNPT Group will
eventually be equitized and listed on international stock exchanges,
although he provided no firm date. Tran recently reported to local
media that VNPT has asked its subsidiaries Vietnam Data
Communication Company (VDC) and the Vietnam Software and Media
Company (VASC) to submit plans for equitization this year.

GROWING DOMESTIC AND INTERNATIONAL COMPETITION
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¶10. (SBU) Tran's concerns over reforming VNPT are likely a result of
increasing competition from local companies - both state-owned and
private - and the growing presence of foreign firms. For example,
the MIC has issued licenses to a growing number ISPs, including some
major SOE competitors of VNPT such as Electricity of Vietnam and
military-owned Viettel Corporation. While thus far foreign-owned
companies have largely been limited to providing equipment,
technology and infrastructure (many of the major U.S. IT firms are
active here, including Qualcomm, Motorola, Intel and Microsoft,
among others), Vietnam's market is opening in certain sectors to
foreign service providers. VNNIC's Deputy Director Nam Trung told
EconOff that aside from the United States, Vietnam's largest
partners in the Internet and IT sectors are companies from Japan,
Korea, China and Singapore. Vietnamese news has carried a number of
recent reports of growing investment by these countries in IT
equipment production facilities, including several USD one billion
plus computer manufacturing plants. This liberalization stands to

change the IT market dynamics, and will likely accelerate the growth
of the IT sector in Vietnam, Trung said.

CHALLENGES FOR VIETNAM

¶11. (SBU) The GVN has its challenges cut out as it seeks to support
further growth of the Internet and ICT sectors. It is starting from
a low base point, and is struggling to catch up with other countries
in the world. Despite Vietnam's efforts over the past several
years, recent World Bank Institute, International Telecommunications
Union (ITU), World Economic Forum and Economist Intelligence Unit
(EIU) indexes all ranked Vietnam low on their varying scales of ICT
development or "e-readiness." For example, Vietnam ranked 126 of
181 countries in the ITU's Digital Opportunity Index, and fared an
even lower score of 65 out of 69 countries in the EIU's 2007
E-Readiness Index. One of the primary obstacles cited in each of
these reports is the low level of education and training and lack of
skilled human resources.

¶12. (SBU) Another key challenge the GVN faces is balancing growth of
the Internet while insisting on preserving its monitoring and
control of Internet content and usage. The MIC, Ministry of Public

Security and Ministry of Culture, Sport and Tourism all play a role in monitoring and restricting Internet access and content. Foreign ISPs are currently forbidden, and the owners of domestically-registered websites, including those operated by foreign entities, are required to register their websites and submit their content plans to the government for approval. As reftel D indicates, the space for expression via the internet has widened recently; however, the government continues to monitor email and censor Internet content, maintaining that it must do so to protect its citizens from "antisocial and bad elements." In addition to these policies resulting in the arrest and detention of individuals for "misuse" of the Internet or "conducting propaganda against the State," Vietnam's tight Internet restrictions hamper growth of this sector. A number of foreign companies have told the Embassy that they will not create and register a website here in Vietnam due to the cumbersome reporting requirements imposed by the government and the fear of potential repercussions over website content - pointing to the 2007 case of Intellasia, an online news and business publication shut down by the GVN for "illegally posting reactionary content."

COMMENT

¶13. (SBU) With a young, enthusiastic and increasingly tech-savvy population, the Internet and IT sectors in Vietnam have a bright future. These areas also present commercial opportunities for U.S. firms - both as an export market and as a destination for investment. Vietnam will struggle to reach its full growth potential in the Internet and IT sectors, however, until it can address the lack of education and IT skills training, and until the GVN recognizes that restricting Internet use and content brings with it chilling economic effects resulting in significant costs through lost revenue and the stifling of the exchange of free ideas and innovation via electronic means. This reality may become more evident to the government as it relies on the Internet and modern technologies to pursue its economic and social development targets.

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